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DAN F. ARNETT
CHIEF OF STAFF

174083

May 19, 2005

VIA HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

RECEIVED
2005 MAY 19 PM 5:15
SC PUBLIC SERVICE COMMISSION

Re: Carolina Power & Light Company dba Progress Energy Carolinas, Inc. -
Annual Review of Base Rates for Fuel Costs.
Docket No. 2005-1-E

Dear Mr. Terreni:

Pursuant to paragraph 1 of the Settlement Agreement filed May 18, 2005 in this matter, please find enclosed for filing twenty-five (25) copies of A.R. "Randy" Watts's revised direct testimony captioned as "Settlement Testimony" and Jacqueline R. Cherry's errata sheet. Please date stamp one copy and return it to me via our courier. We have served same on all parties of record and enclose a Certificate of Service to that effect. Please let me know if you have any questions.

Sincerely,

Wendy B. Cartledge

Wendy B. Cartledge

Enclosures

cc: Len S. Anthony, Esquire (w/enclosures)
Garrett A. Stone, Esquire (w/enclosures)
Thomas S. Mullikin, Esquire (w/enclosures)
Scott Elliott, Esquire (w/enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-1-E

IN RE: Carolina Power & Light Company)
 d/b/a Progress Energy Carolinas, Inc.)
 Annual Review of Base Rates for)
 Fuel)
_____)

CERTIFICATE OF SERVICE

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SOUTH CAROLINA
PUBLIC SERVICE COMMISSION

This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy each of the **REVISED DIRECT TESTIMONY OF A.R. WATTS AND THE ERRATA SHEET OF JACQUELINE R. CHERRY** in the above-referenced matter to the person(s) named below via electronic mail and by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Len S. Anthony, Esquire
Progress Energy Services Company
PO Box 1551/PEB 17A4
Raleigh, NC 27602
len.s.anthony@pgnmail.com

Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205
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1025 Thomas Jefferson Street, N.W.
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Rena Grant

May 19, 2005
Columbia, South Carolina

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COMMERCIAL

**SETTLEMENT TESTIMONY OF
A.R.WATTS
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2005-1-E**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

My name is A.R. "Randy" Watts. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Manager of the Electric Department for the Office of Regulatory Staff ("ORS").

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
PROCEEDING?**

A. The purpose of my testimony is to provide a summary of my direct testimony and the revisions required to reflect two additional changes made by the ORS Audit Staff, as well as the adjustments negotiated to arrive at the Settlement Agreement. In addition, I will summarize and offer for consideration by the Commission the Settlement Agreement reached by all the parties in this proceeding.

**Q. PLEASE SUMMARIZE BOTH YOUR REVISED DIRECT
TESTIMONY AND THE SETTLEMENT AGREEMENT.**

A. ORS reviewed Progress Energy Carolinas, Inc. ("PEC" or "Company") responses to our formal Data Request which contained thirty-eight questions. ORS reviewed the Company's monthly fuel reports including power plant performance data, major unit outages, and generation statistics,

1 and evaluated comparisons of actual to original estimates for both megawatt-
2 hour sales and fuel costs. ORS analyzed the Company's fuel cost projections
3 and reviewed the Adjustment for Fuel Costs Rider.

4 ORS met with various PEC personnel representing fuel procurement,
5 plant operations, and resource planning areas to discuss the Company's
6 procurement activities and policies, plant performance and operations, and
7 forecasting methodologies and practices.

8 ORS reviewed the Company's operation of its generating facilities,
9 including special attention to the nuclear plant operations. Our review of the
10 Company's operation of its generating facilities resulted in our conclusion that
11 the Company made reasonable efforts to maximize unit availability and
12 minimize fuel costs.

13 Our analysis of the Company's actual megawatt-hour sales versus
14 forecasted sales showed a variance of 2.55% during the review period. The
15 monthly comparison between projected and actual fuel cost factors showed a
16 cumulative variance of 17.65%. One of the contributing factors to this
17 significant variance was the fact that the Company's prior fuel review
18 proceeding commenced at the early stages of these unprecedented coal and
19 transportation cost increases which caused this element to not be included in
20 the projections for the current review period. Another contributor was the
21 extension of the original review period in order to allow more time for
22 analysis and review of the issues which resulted in the previously approved
23 lower base fuel level remaining in effect for a longer period of time.

1 ORS reviewed the forecasted maintenance schedules for the
2 Company's major generating units as well as the Company's fuel price
3 forecast for Nuclear, Coal and Natural Gas. Additionally, ORS reviewed the
4 Company's forecast computer model and the inputs and results utilized in
5 projecting fuel costs. The computer model used by PEC is widely accepted
6 and utilized by numerous utility companies throughout the country for fuel
7 cost projections. Our review resulted in our conclusion that PEC's forecasting
8 model is reasonable and appropriate.

9 Our analysis indicates the major driver for the upward pressure on fuel
10 costs is the significant increases in delivered cost of coal. In addition, the
11 significant level of under-recovery in the cumulative account balance further
12 exacerbates the pressure to increase the base fuel level.

13 During our examination of PEC's projected fuel costs for July 2005
14 through June 2006, ORS became aware of certain errors in the application of
15 the 10% surcharge for Norfolk and Southern freight rates in 2006, and in the
16 application of the BTU premium on coal costs. The Company concurred with
17 these findings. The net effect of these corrections will be to lower the total
18 fuel cost projections by \$21,276,420 on a system basis which reduces the
19 South Carolina retail portion by \$2,925,507. Also through our review, it was
20 determined that the Company included adders for both the winter and non-
21 winter periods to the industry standard projected costs for natural gas for the
22 twelve months ending June 2006. The Company's rationale for incorporating
23 these adders was based on comparisons of prior estimates to actual costs

1 experienced by the Company during periods of high volatility. Although there
2 does appear to be some correlation, the projections have been both above and
3 below the actual cost, which is to be expected. ORS is not convinced at this
4 time that a deviation from the projections supplied by established industry
5 forecasting groups is appropriate and therefore recommends removal of
6 \$12,810,800 from total fuel cost projections, corresponding to these adders.
7 These reductions to correct the forecast error for coal and freight costs and the
8 gas cost adder are shown on lines I.a. and I.b. of Revised Exhibit ARW-10.
9 Also shown on this Exhibit line I.c., titled 'AEP/Broad River Transmission
10 Costs', is an adjustment in the amount of \$16,485,400 to reduce the
11 Company's projected total cost of fuel for transmission charges associated
12 with capacity purchases from AEP-Rockport and the Broad River suppliers
13 during July 2005 through June 2006. This adjustment is a result of the
14 settlement negotiations. In addition, PEC agreed that in the future, unless and
15 until there is a change in the fuel statute specifically authorizing such
16 recovery, it will not recover or seek recovery of transmission capacity charges
17 associated with "firm generation capacity purchases", including but not
18 limited to, all transmission capacity charges associated with purchases from
19 AEP-Rockport and Broad River, as well as transmission capacity charges
20 associated with any future firm generation capacity purchases.

21 The ORS Auditing Department made several adjustments to actual
22 fuel costs totaling \$2,504,097 (on a South Carolina retail basis) which is a
23 reduction to the Company's cumulative recovery amount as of June 2005 and

1 results in an under-recovered balance of \$38,979,619, as reflected on ORS
2 Revised Audit Exhibit JRC-7. The Revised data included on Revised Audit
3 Exhibit JRC-7 results in a change to the cumulative recovery account balance
4 as of March 2005 from the prior under recovered level of \$27,998,971 to
5 \$27,537,237 and is reflected on the last entry to Revised Exhibit ARW-7.
6 This total Audit Department adjustment is also reflected on Revised Exhibit
7 ARW-10. The \$2,504,097 is included in the cumulative \$5,926,729 figure on
8 the line designated "Accounting Adjustment" under Section II. This
9 cumulative figure also reflects the removal of \$3,422,632 of transmission
10 charges, not previously removed, that are associated with capacity purchased
11 by the Company from AEP-Rockport and the Broad River suppliers for the
12 period January 2004 through June 2005. The elimination of these transmission
13 charges is a component of the Settlement Agreement.

14 As reflected in the Settlement Agreement, all parties agreed that 2.200
15 cents per kilowatt-hour is the appropriate fuel factor for PEC to charge for the
16 period beginning with the first billing cycle on July 2005 through the last
17 billing cycle of June 2006. The effect of this new base fuel component is
18 shown on Revised Exhibit ARW-10. This Exhibit provides two columns; the
19 first is a reproduction of the data from the original Exhibit, and the second
20 column is reflective of the Settlement Agreement as well as ORS Auditing
21 Department adjustments. Revisions to the original data are highlighted in
22 yellow on the second column.

1 As shown on Revised Exhibit ARW-10, the setting of the base fuel
2 factor at 2.200 cents per kwh is anticipated to allow the Company to recover
3 an amount of revenue somewhat greater than the projected average fuel cost
4 of 2.145 cents per kwh for the period July 2005 through June 2006. However,
5 this expected amount of revenue to be recovered at the 2.200 base fuel
6 component is predicted to be less than the total amount of under-recovery at
7 June 30, 2005. In addressing this issue, the Parties have agreed that PEC shall
8 be allowed to recover an amount equal to the under-recovery at June 30, 2005
9 spread over a three year period ending June 30, 2008. The Parties further
10 agree that an amount equal to the amount of under-recovery remaining from
11 this original amount and not recovered prior to July 1, 2006 shall be recovered
12 half in the second year in equal monthly installments and half in the third year
13 in equal monthly installments, and effective July 1, 2006, through June 30,
14 2008, PEC shall be allowed to charge and recover carrying costs on the
15 monthly unpaid balance of such amount at an interest rate of six percent (6%)
16 compounded annually. While the Parties recognize that S.C. Code Ann.
17 Section 58-27-865 (B) indicates that any under recovery should be recovered
18 during the next twelve months, the Parties also recognize that the Commission
19 previously allowed an amortization of an amount equal to an under recovery
20 over a period greater than one year. The Parties agree that the proposed
21 amortization of an amount equal to the under-recovery over a three year
22 period would balance concerns of the using public while preserving the
23 financial integrity of the Company. Further ORS and the other Parties also

1 believe a three year recovery period would not inhibit, but would promote
2 economic development, when compared with the alternative of a shorter
3 recovery period. The Parties also agree that the first dollars recovered in the
4 twelve months beginning July 2005 shall be applied to the under recovery so
5 that in the next fuel proceeding for PEC any under recovery will be for the
6 period July 2005 through June 2006. This method of collection of the under
7 recovered balance as agreed to by the Parties will serve to protect the integrity
8 of the statutory scheme as well as the financial integrity of the Company.

9 In an effort to keep the Parties and PEC's customers informed of the
10 status of the Company's actual fuel cost recovery and forecasted fuel factor,
11 PEC will provide to the South Carolina Energy Users Committee, Nucor
12 Steel, and where applicable, its customers, copies of certain materials and
13 information. PEC will provide copies of the monthly fuel reports currently
14 filed with the PSC and the ORS and a quarterly forecast beginning October 1,
15 2005, of the expected fuel factor to be set at its next annual fuel proceeding.

16 The Parties further agree that any and all challenges to PEC's
17 historical fuel costs for the period ending March 31, 2005 are not subject to
18 further review.

19 Exhibit ARW-11 incorporates revisions to PEC's current Adjustment
20 For Fuel Costs Rider which reflect language that complies with the latest
21 version of the fuel cost statute which was modified during the 2004
22 Legislative session. The changes were made to paragraphs (B) and (C) and an
23 acknowledgement in the final paragraph to confirm that the statute language is

1 controlling in case of any conflict with the Rider itself. ORS recommends this
2 revised/updated version of the Rider for approval by the Commission to more
3 accurately reflect the language in the statute.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 **A.** Yes, it does.

**South Carolina
Office of Regulatory Staff
History of Cumulative Recovery Account Report
for Progress Energy Carolinas, Inc.**

**(Revised)
EXHIBIT ARW-7**

PERIOD ENDING	OVER (UNDER) \$
March 1979 – Automatic Fuel Adjustment in Effect	
December 1979	1,104,730
September 1980	(12,000,131)
March 1981	(4,060,364)
August 1981	(12,113,832)
March 1982	(935,412)
September 1982	(6,881,796)
March 1983	(2,259,114)
September 1983	(3,264,694)
March 1984	109,270
September 1984	2,172,859
March 1985	(2,317,008)
September 1985	745,913
March 1986	1,972,280
September 1986	(696,805)
March 1987	2,408,354
September 1987	3,310,059
March 1988	(3,964,888)
September 1988	(5,737,541)
March 1989	(8,125,496)
September 1989	(5,875,641)
March 1990	(9,311,149)
September 1990	(658,614)
March 1991	1,403,023
September 1991	4,661,988
March 1992	5,201,112
September 1992	(6,712,920)
March 1993	(9,563,180)
September 1993	0*
March 1994	(1,010,684)
September 1994	1,975,939
March 1995	7,408,161
September 1995	2,011,489
December 1996	186,139
December 1997	(6,212,396)
December 1998	(14,334,022)
December 1999	(17,967,157)**
December 2000	(18,627,471)
December 2001	(9,906,921)
December 2002	(7,393,266)
December 2003	(6,038,891)
March 2005	(27,537,237)

*Eliminated \$14,011,263 per Commission Order No. 93-865

**Reduced by \$6,500,000 per Commission Order No. 1999-324

**Office of Regulatory Staff
Collection of Base Fuel Component
Progress Energy Carolinas, Inc.**

**(Revised)
EXHIBIT ARW-10**

I. Projected Fuel Expense

	Original	
Cost of Fuel (As Filed)	\$1,220,730,000	\$1,220,730,000
Less:		
a. Error in Forecast: Freight Escalation, BTU Premium, Compliance vs. Non-Compliance	(\$21,276,420)	(\$21,276,420)
b. Eliminate PEC Gas Cost Adder to Forecast	(\$12,810,800)	(\$12,810,800)
c. AEP/Broad River Transmission Costs	n/a	(\$16,485,400)
Adjusted Cost of Fuel	\$1,186,642,780	\$1,170,157,380
System Sales (MWH)	54,546,281	54,546,281
Average Cost (¢/KWH)	2.175	2.145

II. Revenue Difference to be Collected

Under Recovery at June 2005 (As Filed)	\$41,483,716	\$41,483,716
Accounting Adjustment	(\$2,042,363)	(\$5,926,729)
Adjusted Under Recovery	\$39,441,353	\$35,556,987
1st Year Recovery	n/a	(\$4,124,568)
Equivalent dollar amount to be recovered over the 2nd and 3rd year periods @ 6% interest	n/a	\$31,432,419
Projected SC Retail Sales (MWH)	7,499,215	7,499,215
Average 1st Year Cost (¢/KWH)	0.175	0.055

III. Base Fuel Cost per KWH

Projected Fuel Expense	2.175	2.145
Under Recovery	0.175	0.055
Base Fuel Component (¢/KWH)	2.350	2.200

Yellow Denotes Revisions To Original Exhibit

ERRATA SHEET FOR JACQUELINE R. CHERRY**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2005-1-E****IN RE: CAROLINA POWER & LIGHT COMPANY d/b/a****PROGRESS ENERGY CARLINAS, INC.**

The following changes are made to my Direct Testimony:

Direct Testimony

On Page 4, Line 1: The number “(\$27,998,971)” should read “(\$27,537,237)”

Line 6: The number “(\$39,441,353)” should read “(\$38,979,619)”

Line 9: The number “\$2,042,363” should read “\$2,504,097”

Line 12: The number “(\$27,998,971)” should read “(\$27,537,237)”

Line 16: The number “\$2,042,362” should read “\$2,504,096”

On Page 5, Line 6: The number “(\$39,441,353)” should read “(\$38,979,619)”

Line 8: The number “(\$39,441,353)” should read “(\$38,979,619)”

On Page 7, Line 20: The word “FINAL” should read “FOURTH AND FIFTH”

Line 21: The word “FOOTNOTE” should read “FOOTNOTES”

On Page 8, Line 1: The words “and final” should be deleted.

Line 13: Add “The fifth footnote in Audit Exhibit JRC-7, explains an adjustment

the ORS made to reflect the South Carolina portion of a PEC settlement

agreement with the Federal Energy Regulatory Commission (FERC) concerning

the results of an audit on FERC’s “Standards of Conduct and Codes of Conduct”.

THE OFFICE OF REGULATORY STAFF**1441 Main Street, Suite 300, Columbia, SC 29201****Post Office Box 11263, Columbia, SC 29211**

1 The South Carolina portion, which was 9% of the total FERC settlement of
2 \$5,400,000, totaled \$486,000. The 9% represents the allocation percentage of the
3 South Carolina Retail MWH Sales to the total Retail MWH Sales of Progress
4 Energy Carolinas (PEC) and Progress Energy Florida, for the twelve months
5 ending December 2004. The adjustment is reflected in the South Carolina
6 Jurisdictional cumulative balance of the Deferred Account (in March 2005) as an
7 over-recovery amount of \$486,000.

8 On Page 8, Original Line 16: The number “(\$27,998,971)” should read
9 “(\$27,537,237)”

10 On Page 8, Original Line 19: The number “\$2,042,362” should read
11 “\$2,504,096”

12 On Page 8, Original Line 21: The number “(\$39,441,353)” should read
13 “(\$38,979,619)”

14 Exhibits

15 In the Report of the Audit Department of the Office of Regulatory Staff, the
16 following exhibits have been revised to reflect the changes made to my testimony:
17 The Analysis (pp.6 – 7)—Section Entitled: 8. RECALCULATING THE TRUE-
18 UP FOR THE OVER (UNDER)-RECOVERED FUEL COSTS—The first
19 sentence of this section “ORS analyzed the cumulative (under)-recovery of fuel
20 costs that the Company had incurred for the period January 2004 through March
21 2005 totaling (\$27,998,971).” should read “ORS analyzed the cumulative (under)-
22 recovery of fuel costs that the Company had incurred for the period January 2004
23 through March 2005 totaling (\$27,537,237).”

Exhibits—The Analysis (pp.6 – 7) — Section Entitled: 8. RECALCULATING

THE TRUE-UP FOR THE OVER (UNDER)-RECOVERED FUEL COSTS

The second sentence of this section “ORS added the projected (under)-recovery of (\$2,333,564) for the month of April 2005, the projected (under)-recovery of (\$3,394,987) for the month of May 2005, and the projected (under)-recovery of (\$5,713,831) for the month of June 2005 to arrive at a cumulative (under)-recovery of (\$39,441,353) as of June 2005.” should read “ORS added the projected (under)-recovery of (\$2,333,564) for the month of April 2005, the projected (under)-recovery of (\$3,394,987) for the month of May 2005, and the projected (under)-recovery of (\$5,713,831) for the month of June 2005 to arrive at a cumulative (under)-recovery of (\$38,979,619) as of June 2005.”

The fourth sentence of this section “The difference between the Company’s and the ORS’s cumulative (under)-recovery as of actual March 2005 totals \$2,042,362.” should read “The difference between the Company’s and the ORS’s cumulative (under)-recovery as of actual March 2005 totals \$2,504,096.”

The fifth sentence of this section “The difference between the Company’s and ORS’s cumulative (under)-recovery, as of June 2005, totals \$2,042,363 (\$1 rounding difference noted between the cumulative (under)-recovery differences for actual March 2005 and estimated June 2005).” should read “The difference between the Company’s and ORS’s cumulative (under)-recovery, as of June 2005, totals \$2,504,097 (\$1 rounding difference noted between the cumulative (under)-recovery differences for actual March 2005 and estimated June 2005).”

Exhibits—The Analysis (pp.6 – 7) — Section Entitled: 8. RECALCULATING
THE TRUE-UP FOR THE OVER (UNDER)-RECOVERED FUEL COSTS

On Page 7, The Analysis—The first paragraph on this page “Accordingly, the Commission should consider the (under)-recovery of (\$39,441,353) along with the anticipated fuel costs for the period July 1, 2005 through June 30, 2006, for the purpose of determining the base cost of fuel in base rates effective July 1, 2005. This (\$39,441,353) (under)-recovery figure was provided to ORS’s Electric and Gas Regulation Department.” should read “Accordingly, the Commission should consider the (under)-recovery of (\$38,979,619) along with the anticipated fuel costs for the period July 1, 2005 through June 30, 2006, for the purpose of determining the base cost of fuel in base rates effective July 1, 2005. This (\$38,979,619) (under)-recovery figure was provided to ORS’s Electric and Gas Regulation Department.”

Audit Exhibit JRC-7 (pp.21 – 22 and p.24) – Revised Audit Exhibit JRC-7, Page 1 of 4, Page 2 of 4 and Page 4 of 4 will be submitted.

On Revised Audit Exhibit JRC-7, Page 1 of 4 (p.21) -- Reflects Revised May 2004 S.C.KWH Sales—Revised from “530,278,072” to “532,228,726”; the revision to the May 2004 S.C. KWH Sales changed the monthly (under)-recovery amount for May 2004 from “(\$6,596,659)” to “(\$6,620,925)”. The revision to the monthly (under)-recovery amount for May 2004 affected the monthly cumulative balances for the Deferred Fuel Account from May 2004 through June 2005 (see the Revised Audit Exhibit JRC-7, Page 1 of 4 and Page 2 of 4—pp.21-22).

Exhibits—Revised Audit Exhibit JRC-7, Page 1 of 4, Page 2 of 4 and Page 4 of 4
(pp.21 – 22 and p.24)

On Revised Audit Exhibit JRC-7, Page 2 of 4 (p.22) – March 2005 has been revised to include an over-recovery adjustment of \$486,000 to the cumulative balance of the Deferred Fuel Account. The revision to the cumulative (under)-recovery balance to the Deferred Fuel Account for March 2005 also affected the monthly cumulative balances for the Deferred Fuel Account from March 2005 through June 2005 (see the Revised Audit Exhibit JRC-7, Page 1 of 4 and Page 2 of 4—pp.21-22).

On Revised Audit Exhibit JRC-7, Page 4 of 4 (p.24) – This page has been revised to include an explanation for a new Footnote # (5), which should read as follows:

“ORS made an adjustment to reflect the South Carolina portion of a PEC settlement agreement with the Federal Energy Regulatory Commission (FERC) concerning the results of an audit on FERC’s “Standards of Conduct and Codes of Conduct”. The South Carolina portion, which was 9% of the total FERC settlement of \$5,400,000, totaled \$486,000. The 9% represents the allocation percentage of the South Carolina Retail MWH Sales to the total Retail MWH Sales of Progress Energy Carolinas (PEC) and Progress Energy Florida, for the twelve months ending December 2004. The adjustment is reflected in the South Carolina Jurisdictional cumulative balance of the Deferred Account (in March 2005) as an over-recovery amount of \$486,000.”

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
SOUTH CAROLINA FUEL COST COMPUTATION
JANUARY 2004 - JUNE 2005

	ACTUAL											
	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004	July 2004	August 2004	September 2004			
Fossil Fuel	69,226,676	62,814,401	54,001,042	46,396,794	84,608,155	65,163,571	80,062,152	82,917,388	58,237,363			
Nuclear Fuel	10,003,332	9,201,723	7,140,170	8,297,667	6,432,698	9,250,298	9,411,550	9,208,408	9,563,323			
Purchased Power (2)	8,556,227	6,378,921	7,732,975	7,254,828	21,410,359	12,320,294	17,455,314	12,907,047	11,895,666			
Sub-total	87,786,235	78,395,045	68,874,187	61,949,289	112,451,212	86,734,163	106,929,016	105,032,843	79,696,352			
Less: Intersystem Sales	16,895,217	15,792,461	10,147,416	10,875,147	9,602,590	9,990,851	12,253,765	10,552,810	2,917,437			
Net Fuel Costs	70,891,018	62,602,584	58,726,771	51,074,142	102,848,622	76,743,312	94,675,251	94,480,033	76,778,915			
Total System KWH Sales (000's)	4,530,205	4,578,139	4,185,739	3,848,207	3,788,222	4,658,707	4,912,348	4,826,877	4,575,051			
\$/KWH	0.01565	0.01367	0.01403	0.01327	0.02715	0.01647	0.01927	0.01957	0.01678			
Less: Base	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471			
Fuel Adjustment/KWH	(0.00094)	0.00104	0.00068	0.00144	(0.01244)	(0.00176)	(0.00456)	(0.00486)	(0.00207)			
S.C. KWH Sales	630,892,125	626,546,693	601,056,441	553,395,893	532,228,726	685,898,072	700,845,232	668,186,495	659,502,230			
Deferred Fuel Entry	(593,039)	651,609	408,718	796,890	(6,620,925)	(1,207,181)	(3,195,854)	(3,247,386)	(1,365,170)			
December 2003 (1)	(6,038,891)											
Accounting Adjustment												
Cumulative Over/(Under) Recovery	(6,631,930)	(5,980,321)	(5,571,603)	(4,774,713)	(11,395,638)	(12,602,819)	(15,798,673)	(19,046,059)	(20,411,229)			

Please Note:
In Audit Exhibit JRC-7, ORS reflects Over-Recovery amounts without parentheses and reflects (Under)-Recovery amounts within parentheses.

*Explanation of Footnotes on Audit Exhibit JRC-7, Page 3 of 4 and Page 4 of 4.

Note: Prepared by the ORS Audit Staff.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
SOUTH CAROLINA FUEL COST COMPUTATION
JANUARY 2004 - JUNE 2005

	ACTUAL					ESTIMATED				
	October 2004	November 2004	December 2004	January 2005	February 2005	March 2005	April 2005	May 2005	June 2005	
Fossil Fuel	48,016,539	51,513,064	71,344,698	85,986,064	69,688,744	88,408,199	74,943,900	77,316,300	101,819,900	
Nuclear Fuel	8,352,901	8,014,965	9,665,709	9,712,533	8,571,138	7,623,023	8,408,500	9,697,500	9,397,200	
Purchased Power (2)	7,832,928	8,645,561	11,422,891	12,081,732	7,724,460	10,690,934	9,502,800	9,252,900	11,875,500	
Subtotal	64,202,368	68,173,590	92,433,298	107,780,329	85,984,342	106,722,156	92,855,200	96,266,700	123,092,600	
Less: Intersystem Sales	9,107,258	7,532,549	14,590,253	17,427,354	12,928,045	20,373,134	18,226,500	11,643,000	14,743,100	
Net Fuel Costs	55,095,110	60,641,041	77,843,045	90,352,975	73,056,297	86,349,022	74,628,700	84,623,700	108,349,500	
Total System KWH Sales	3,917,030	3,717,156	4,286,650	4,550,908	4,522,714	4,317,262	3,940,127	4,077,318	4,600,090	
\$/KWH	0.01407	0.01631	0.01816	0.01985	0.01615	0.02000	0.01894	0.02075	0.02355	
Less: Base	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	0.01471	
Fuel Adjustment/KWH	0.00064	(0.00160)	(0.00345)	(0.00514)	(0.00144)	(0.00529)	(0.00423)	(0.00604)	(0.00884)	
S.C. KWH Sales	570,907,426	511,510,794	596,408,640	616,099,915	606,933,897	557,383,936	551,670,000	562,084,000	646,361,000	
Deferred Fuel Entry	365,381	(818,417)	(2,057,610)	(3,166,754)	(873,985)	(2,948,561)	(2,333,564)	(3,394,987)	(5,713,831)	
September 2004 - (p. 1 of 2)	(20,411,229)		(18,500)	(3)						
Accounting Adjustment						1,906,438	(4)			
Accounting Adjustment						486,000	(5)			
Cumulative Over/(Under)										
Recovery	(20,045,848)	(20,864,265)	(22,940,375)	(26,107,129)	(26,981,114)	(27,537,237)	(29,870,801)	(33,265,788)	(38,979,619)	

Please Note:
In Audit Exhibit JRC-7, ORS reflects Over-Recovery amounts without parentheses and reflects (Under)-Recovery amounts within parentheses.

*Explanation of Footnotes on Audit Exhibit JRC-7, Page 3 of 4 and Page 4 of 4.

Note: Prepared by the ORS Audit Staff.

**Carolina Power & Light Company
d/b/a Progress Energy Carolinas, Inc.
South Carolina Fuel Cost Computation
January 2004 – June 2005**

Explanation of Footnotes to Audit Exhibit JRC-7:

- (3) In December 2004, the Company made an adjustment to reflect a correction to its S.C. KWH Sales from November 2004. The sales had been understated for that month. This true-up adjustment was reflected as an additional monthly entry to the Deferred Fuel Account as an (under)-recovery entry of (\$18,500). ORS agreed with this adjustment.
- (4) ORS made an adjustment for an outstanding PSC Fuel Docket of PEC, Docket No.2003-1-E. In January 2004, the Richland County Circuit Court, in an appeal of the fuel cases of Duke and SCE&G, ruled on the interpretation of the definition section of fuel costs related to purchase power transactions based on the S.C. Fuel Statute that was current at that time. The Court ruled that the avoided cost proxy that was used in S.C. to handle non-identifiable fuel costs in purchase transactions was not allowed under the S.C. Fuel Statute. CP&L agreed to be bound by the decision of the Court in the appeal. Therefore, to resolve the outstanding CP&L (PEC) docket, which dealt with this issue, ORS proposed the use of the N.C. Public Staff's Fuel Cost Proxy Percentages for that review year of 2002. The adjustment is reflected in the S.C. Jurisdictional cumulative balance of the Deferred Account as an over-recovery amount of \$1,906,438. See Audit Exhibit JRC-9 for details.
- (5) ORS made an adjustment to reflect the South Carolina portion of a PEC settlement agreement with the Federal Energy Regulatory Commission (FERC) concerning the results of an audit on FERC's "Standards of Conduct and Codes of Conduct". The South Carolina portion, which was 9% of the total FERC settlement of \$5,400,000, totaled \$486,000. The 9% represents the allocation percentage of the South Carolina Retail MWH Sales to the total Retail MWH Sales of Progress Energy Carolinas (PEC) and Progress Energy Florida, for the twelve months ending December 2004. The adjustment is reflected in the South Carolina Jurisdictional cumulative balance of the Deferred Account (in March 2005) as an over-recovery amount of \$486,000.